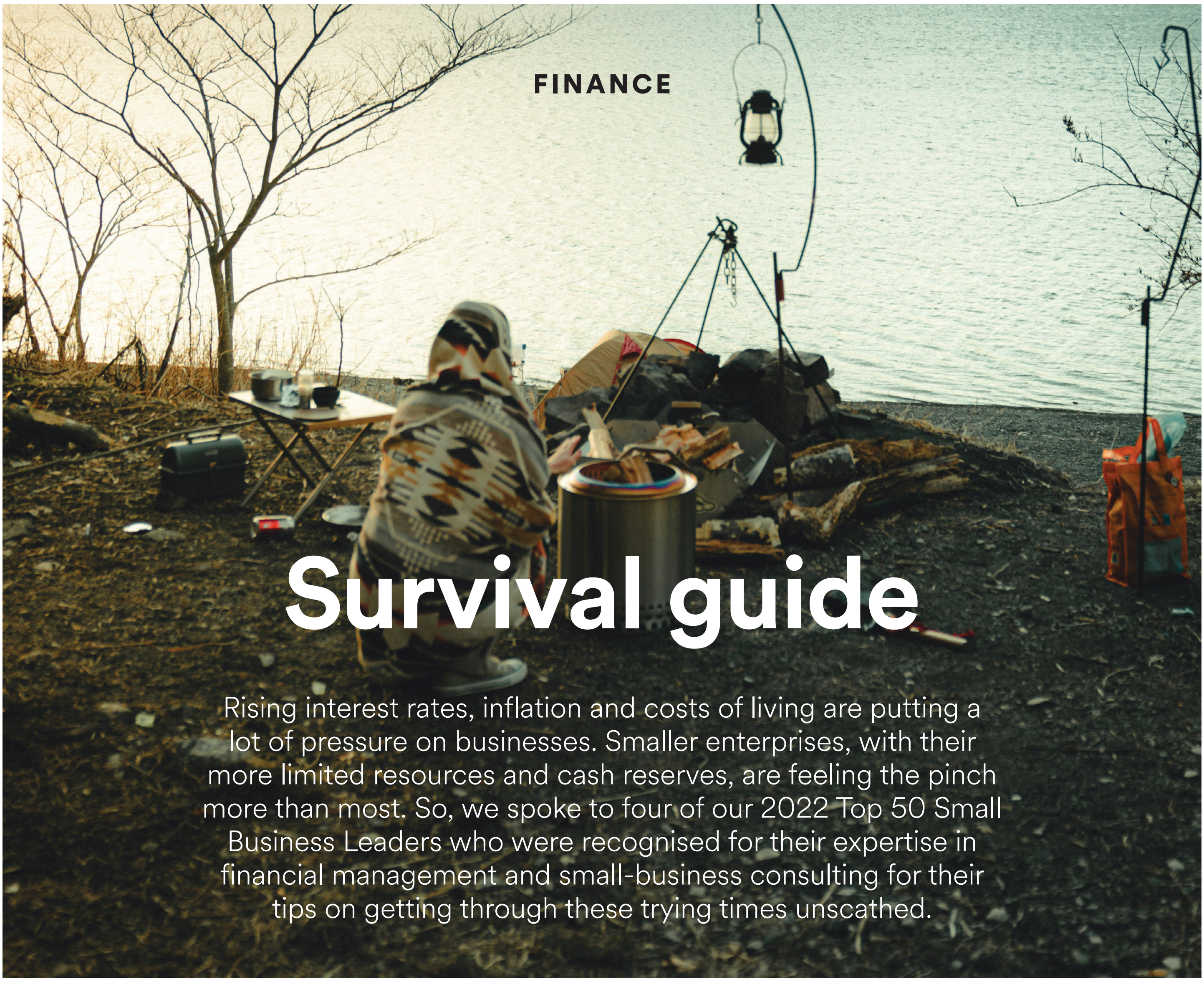


Survival guide

Rising interest rates, inflation and costs of living are putting a lot of pressure on businesses. Smaller enterprises, with their more limited resources and cash reserves, are feeling the pinch more than most. So, we spoke to four of our 2022 Top 50 Small Business Leaders who were recognised for their expertise in financial management and small-business consulting for their tips on getting through these trying times unscathed.

MICHELLE KVELLO
Founder,
Lantern Partners

After the pandemic piled an enormous amount of pressure onto small-business owners, it was supposed to be getting easier by now, wasn't it? Unfortunately, with the combination of rising interest rates and inflation, it feels anything but easy. So, how do small businesses best deal with the kitchen sink of issues being thrown at them?

Firstly, know your numbers and, most importantly, your cashflow. Visibility is critical in tough conditions; if you know what your costs are, how much you owe and how much is owed to you, you can make informed decisions and stay nimble.

Tempting as it might be, don't bury your head in the sand around debts, particularly in relation to the Australian Taxation Office and employee contributions. The ATO is starting to crack down on unpaid debts and directors can be personally liable if the company doesn't pay. Speak to the ATO if you're cash strapped, as ignoring payment deadlines can have detrimental effects on both your business and your own credit rating.

Timeliness is key, it's not enough to see your financials only once a quarter – financial systems, such as Xero, offer real-time information enabling speedy decision-making. Review your costs and get rid of what you don't need. What subscriptions are you paying for that you don't use? If you rent premises and aren't using the whole space, consider subletting or terminating your lease early if you can relocate. Is there equipment you no longer need that you can sell or hire out? Which suppliers can you renegotiate with? Get creative. It's not just the big changes that matter, the marginal changes accumulate to make a big difference.

Study your profit margins across different parts of your business. You will probably find that some are much more profitable than others, and some financially drag your business down. Look at whether it makes sense to stop doing those things that drag, particularly if they are running at a loss.

And remember not to focus on just cutting costs. When you figure out where your business is really making money, consider doubling down and investing in those areas. If you can grow your way out of the current economic situation, you'll have a much more robust business on the other side. Finally, accept that things simply might not return to 'the way they were' pre-pandemic and your business needs to adapt. Understanding this and reacting to the changed environment is so key to business survival.

PETER BUCKINGHAM
Co-founder and Managing Director, Spectrum Analysis

The type of business you operate, and how much stock and receivables you have to carry, affect the level of disruption rising inflation and interest rates have. Invariably, though, such conditions mean higher costs of doing business.

With a small business, once you see cost changes occurring and cost of goods sold (COGS) rising, you must reflect this in your selling prices. Keeping prices at the same level will cause a rapid erosion in profits. Many high-turnover businesses may have a net profit of only five to 10 per cent of their turnover, and if the COGS has risen five per cent with no passing that on, that profit can quickly become zero or turn into loss. Do not be afraid to increase your prices, as your competitors are probably in the same boat, and consumers are used to seeing price hikes at the moment.

In times like this, your suppliers are likely to also be pushing up their prices. You need to take a long-term approach and discuss these increases. Accept them if they're justified, question them if not. You will be hearing all sorts of figures and reasons for price increases – cost of containers, cost of shipping, COVID-19 in the workforce and more. Apply a reality check and if cost rises are reasonable, accept them and make sure you pass them on. If they're unreasonable, and you see them as price gouging, maybe you have to accept it for the short term, but think of your long-term supply chain, and does this supplier fit your criterion? Sometimes a change is good as a holiday, or bide your time but have a long memory.

Many businesses use the excuse of interest rates and other controlled cost increases to make major short-term changes. I have a view that knee-jerk reactions are poor, and not good long term. When I was working in an oil company for 20 years, if interest rates rose, or a drought occurred, we slashed budgets for areas like marketing and training. Two years later, we would be asking questions such as "Why is our market share down?" and "Why do our sales representatives have little experience?" The long-term effects were much worse than the small addition to the bottom line that was reflected in the budget cuts. Small business needs to have a longer-term view, and whilst belt tightening may be needed, having your pants fall down is not a good idea.

MICHELLE MAYNARD
Partner,
Carbon Group

Small-business owners aren't immune to cost of living pressures but there are a few things you can do to assess how your business can handle them and take action to buffer any impact.

Do a business health check. Analysing your business in detail will give you vital information to help you make decisions for your business. Many businesses don't realise that there are many ways to evaluate the health of the company, and not all of them involve money.

A business needs more than just a strong financial performance to survive and thrive. It also needs innovation, leadership development, sustainability, meaningful work for employees and customers alike...the list goes on.

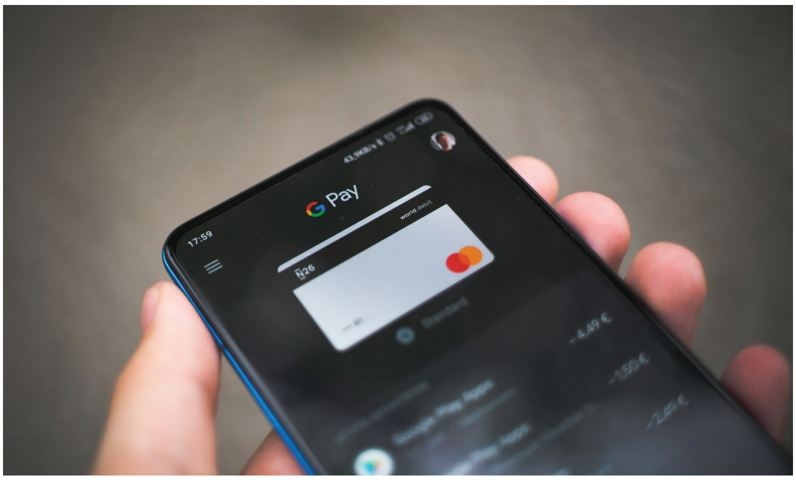
Take time to look at each area of your business in detail.

Financial performance is a great starting point. Are you maximising revenue opportunities? Are your expenses necessary and minimised where possible? Are you carrying too much inventory? After you have analysed the financial side of business, move on to your systems, people and marketing, to see if these areas are working for or against you.

We all know the business landscape has changed in the past few years – performing a business health check regularly will help assess how your business is travelling during these times.

One key area to focus on is cashflow. We know cash is vital to business success, so maximising cashflow can be key to getting through the coming months.

There are some sure-fire methods to get more cash into your business. Start with your invoicing and accounts receivable processes. The clock doesn't start ticking for payment until invoices go out – so ensure you are invoicing frequently. Make it simple for customers to pay you. Set up electronic payment methods, have automatic reminders on your invoicing software – remove barriers that stop money coming into your account. And while it is a part of business many don't find enjoyable, proactive debt collection is imperative. Get on the front foot early with overdue accounts to ensure they don't linger.



CLAUDIA NORTH
Founder,
With Small Business

The increasing cost of living, interest rates and inflation don't have to spell doom and gloom for small-business owners who have the advantage of being nimble. Now is the best time to implement effective strategies that not only drive a higher ROI for the short term but also drive long-term growth.

Firstly, optimise your website conversion rate – doing so by just one per cent can have a significant impact on your revenue without additional investment in advertising or other marketing. There are free tools through which you can identify the high-impact areas to improve your conversion rate. You may need to spend some money on optimisation; however, once you increase your conversion rate, this will increase your revenue.

Setting up email automations based on triggers or events also drive a high ROI. For example, if you have a product that lasts for one month, you can implement an automated email series to be triggered 30 days after your customers bought that particular product. You could also offer them a value add or discount to encourage a second purchase.

Another effective email marketing automation is an abandoned cart email marketing series. Research reveals that when an abandoned cart series consists of three emails in a series, it has a 56 per cent increase in revenue over just one email. And with almost 70 per cent of online shopping carts being abandoned, you won't be leaving money on the table.

I would strongly recommend not stopping your advertising spend when times get tough; however, there are 'bottom of funnel' strategies that are more cost-effective in helping your immediate cashflow. If you outsource your advertising – and in my experience the vast majority of small businesses do – ask them to use these tactics at the moment:

- Retargeting – there is a much higher conversion rate when you serve ads to people who have already visited your website but not bought at the first visit.
- Shopping ads – serving ads to people already in the market looking for the products you offer.
- Lookalike or custom audiences – allowing the Google and Facebook algorithms to match your customer list to people who are looking for the type of product you offer. ■